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No. 00-62

In The

Supreme Court of the United States

CSU, L.L.C.,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICUS CURIAE*, Service Industry Association ("SIA"), IN SUPPORT OF PETITIONER

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

Service Industry Association ("SIA") is an organization of over 150 independent service organizations ("ISOs"); *i.e.*, organizations that service equipment manufactured by others.[1] The members of SIA service high-technology equipment, ranging from computers to medical equipment to copiers such as those manufactured by Xerox and at issue in the case below. SIA's member organizations employ thousands of people, and account for over $1 billion in commerce each year.

SIA is a non-profit corporation whose purpose is to promote and maintain a close union among ISOs. SIA also develops educational methods to increase awareness about third party maintenance organizations, and studies economic problems facing the industry. In addition, SIA serves as a clearinghouse for information and data relating to its members' businesses and promotes better relations among providers, distributors, and manufacturers of supplies and services.

Because most, if not all, of SIA's member organizations offer service for products that require unique parts (including parts that are copyrighted or patented), SIA has a substantial interest in the outcome of this petition for review. SIA is in a unique position to comment on the serious ramifications of the Federal Circuit's decision below, more specifically on the crippling effect it will

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[1] Counsel for Petitioner and Respondent consented to the filing of this *amicus curiae* brief, written copies of which accompany this brief. Pursuant to Rule 37.6, no money contributions were accepted for the preparation or submission of this *amicus curiae* brief and SIA's counsel, Ronald S. Katz and Anne Wright Fiero, authored this brief in its entirety.

have on the entire third party service industry. SIA has submitted numerous *amicus* briefs in federal courts throughout the country concerning general issues of aftermarket and service competition. In *Eastman Kodak Co. v. Image Technical Services*, 504 U.S. 451 (1992), SIA filed a brief which supported Respondent ISOs, and which was cited by this Court as evidence of the "magnitude of the service business." *Kodak*, 504 U.S. at 462, n. 6.[2]

SIA submits this *amicus curiae* brief because the decision by the Federal Circuit below exceeds the Federal Circuit's limited jurisdiction and contravenes well-established precedent of this Court and other regional circuit courts. Relying on Federal Circuit law contrary to precedents of this Court and other circuits, the Federal Circuit has concluded that intellectual property provides a *per se* defense to violation of the antitrust laws. If allowed to stand, the Federal Circuit's decision will cripple the independent service industry which provides competitive choice in the critical service arena.

ISOs for high-technology equipment will either cease to exist or will exist only at the sufferance of the original equipment manufacturers – all of whom, like Xerox, have product patents and copyrights which they can now use to lessen competition in the distinct market for service of those products. Absent reversal by this Court, the result will be less competition and higher prices for service.

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[2] SIA was then known as Computer Service Network International ("CSNI").

SUMMARY OF ARGUMENT

The Federal Circuit's stated desire to "promot[e] uniformity in the field of patent law," has created chaos in the field of antitrust law. By granting a *per se* antitrust exemption to owners of intellectual property, the Federal Circuit has not only diverged from the law of this Court and other Circuit Courts, but it has also effectively overridden Congressional intent.

When it established the Federal Circuit, Congress intended the court to have limited jurisdiction over patent issues, not boundless jurisdiction over all issues related to patent claims. S. Rep. No. 275, 97th Cong., 5 (1982) ("Senate Report"), *reprinted in* 1982 U.S.C.C.A.N. 11, 15. In its decision below, however, the Federal Circuit has radically expanded its own jurisdiction to encompass any antitrust claim in the same case as a patent-related issue.

The Federal Circuit's decision to apply its own law to such claims not only threatens to undermine regional circuit court jurisdiction over antitrust law in its entirety, but creates an unmanageable system. In the case below, the Federal Circuit applied its own law to CSU's claim that Xerox unlawfully refused to sell or license its *patented* products, but applied Tenth Circuit law to CSU's claim that Xerox unlawfully refused to sell or license its *copyrighted* products. The Federal Circuit avoided serious conflict in its analysis of these claims only because the Tenth Circuit did not have applicable precedent, but in future cases, such conflict cannot consistently be avoided nor can lower courts reasonably determine which law to apply to related issues before them.

Even if the Federal Circuit's interpretation of antitrust law were consistent with that of this Court and other circuits, the Federal Circuit has no authority or expertise to serve as the self-appointed arbiter of a national antitrust policy. Critically, *a fortiori*, no authority exists for the Federal Circuit to ignore this Court's recognition in *Kodak* that a *per se* antitrust exemption for intellectual property owners would exempt "a vast and growing sector of the economy" from critically needed antitrust protection. *Kodak*, 504 U.S. at 479, n. 29.

Indeed, without the protection provided by the antitrust laws, the service industry will drastically shrink along with its lower priced service options. For that reason, this Court has explicitly rejected the very *per se* antitrust exemption now created by the Federal Circuit. *See, e.g., Kodak*, 504 U.S. at 466-67 (*per se* presumptions of legality are strongly disfavored).

Moreover, this Court has never allowed the holder of intellectual property to leverage its monopoly into a second market, at least not without scrutiny under the antitrust laws. Nevertheless, *as a matter of law*, the Federal Circuit presumed that Xerox had a legitimate right to extend an arguably lawful monopoly over its patented Xerox parts into a second, previously competitive, market for service of Xerox equipment.

Even Federal Circuit law recognizes that a patent owner cannot use its statutory right to refuse to deal in order to gain a monopoly in a market beyond the scope of its patent. However, the Federal Circuit's decision has allowed Xerox to do just that. Xerox has used a limited patent over certain of its parts to capture its stated goal of 100% of the service market for Xerox copiers.

In the process, CSU has been effectively eliminated from the market for service of Xerox copiers. Owners of Xerox copiers (the vast majority of the primary copier market) are left with no choice as to their service provider.

Finally, the implications of the Federal Circuit's decision extend far beyond service of Xerox copiers. Under the decision below, any equipment manufacturer can exercise its patent rights to leverage limited statutory monopolies into other markets. This Court has explicitly and repeatedly found such conduct unlawful. *See, e.g., United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 144 (1948); *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 625-26 (1953); *Kodak*, 504 U.S. 479, n. 29.

ARGUMENT

I. The Federal Circuit Exceeded Its Limited Jurisdiction By Making Its Own Antitrust Law

By dismissing CSU's antitrust claims below, the Federal Circuit improperly expanded its jurisdiction beyond that intended by Congress. In 1982, Congress enacted the Federal Court Improvement Act which, among other things, created the Federal Circuit Court of Appeals. 28 U.S.C. §§ 1291, 1295. *See also* Senate Report, 1982 U.S.C.C.A.N. at 15-16. Congress intended that the Federal Circuit would "create doctrinal stability in the field of patent law." *Id.*, 1982 U.S.C.C.A.N. at 15. No mention was made of national uniformity in antitrust law. *Ibid.* In fact, the Senate report cautioned that

> mere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal

> Circuit in avoidance of the traditional jurisdiction and governing legal interpretations of a regional court of appeals.

Id. at 30.

Instead, according to Congress, several procedural rules were in place that would encourage and allow a trial court to separate patent issues from non-patent issues, or allow the Federal Circuit to transfer non-patent claims to a regional circuit court – precisely to avoid the scenario created by the Federal Circuit's decision below. *See, e.g.*, Senate Report, 1982 U.S.C.C.A.N. at 30 (citing Fed.R.Civ.P. 13(i), 16, 20(b), 42(b) and 54(b)). Finally, Congress cautioned that *any additional jurisdiction* for the Federal Circuit would require "not only serious future evaluation, but new legislation." *Id.*, 1982 U.S.C.C.A.N. at 14.

Nevertheless, since its inception, the Federal Circuit has undermined this Congressional intent. In *Atari, Inc. v. JS&A Groups, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) – decided just two years after the court was created – the Federal Circuit declined to "separate" non-patent and patent issues, as the district court had properly done, but instead asserted jurisdiction over an entire appeal consisting of six non-patent related issues, and one claim of patent infringement that was not even part of defendant's appeal. *Atari*, 747 F.2d at 1424-26.[3] At that point,

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[3] The district court granted a preliminary injunction against defendant in connection with its sale of blank 8 K cartridges to be used in its Prom Blaster product. The court "separated" Atari's single patent infringement claim from the remaining six claims before defendant appealed the copyright injunction to the Federal Circuit. *Id.* at 1424. On appeal, Atari moved to transfer appeal of the injunction, which did not include any patent issue, to the Seventh Circuit Court of

attempting to avoid the very type of forum shopping Congress was concerned about with the creation of a national patent court, the Federal Circuit applied the law of the regional circuit to these non-patent claims. *Id.*, 747 F.2d at 1439-40.

In *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998), however, the Federal Circuit changed its position. It determined that it would apply Federal Circuit law to any antitrust claim alleging that the defendant unlawfully enforced a patent which it obtained through fraud on the Patent Office (a so-called "*Walker Process* claim"). *Nobelpharma*, 141 F.3d at 1065-66 (citing *Walker Process Equipment Inc. v. Food Machinery & Chem. Corp.*, 382 U.S. 172 (1965)). *See also Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1361 (Fed. Cir. 1999) ("We should abandon our practice of applying regional circuit law in resolving questions involving the relationship between patent law and other federal and state law rights."). The stated basis for the Federal Circuit's new choice of law rule regarding antitrust claims was that it "was in the best position to create a uniform body of federal law on this subject." *Nobelpharma*, 141 F.3d at 1068.

The most troublesome expansion of the Federal Circuit's jurisdiction comes with the decision below. The Federal Circuit applied its own law to CSU's Section 2 monopolization claim on the ground that the claim arose from Xerox's refusal to sell patented products. Petition, App. at 5a-6a. In doing so, it relied primarily on the language from *Nobelpharma*, that "whether conduct in

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Appeals, but the Federal Circuit denied its request. *Ibid. See also* Senate Report, 1982 U.S.C.C.A.N. at 30.

procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." Petition, App. at 5a (citing *Nobelpharma*, 141 F.3d at 1068).

However, CSU did *not* claim that Xerox had procured its patent by fraud on the Patent Office (the type of claim at issue in *Nobelpharma*), nor did the Federal Circuit cite to any authority supporting the analogy between CSU's Section 2 claims and the fraudulent conduct-type claims at issue in *Nobelpharma*. CSU merely claimed that the antitrust laws prohibited Xerox from using its patents in order to monopolize a second market for service of Xerox copiers.

Despite its belief that it is "in the best position to create a uniform body" of antitrust law, *id.* at 1068, the Federal Circuit has substantially exceeded its Congressional mandate by doing so, and has confirmed that Congressional concerns about establishing a national patent court were well-founded. *See, e.g.*, 1982 U.S.C.C.A.N. at 18 (" . . . the risk of losing the vitality of differing viewpoints in the circuits is too great" to confer jurisdiction over non-patent issues in the Federal Circuit) (Sen. Patrick Leahy).

II. The Federal Circuit's Choice of Law Rules Are Unmanageable

Not only has the Federal Circuit defied Congressional intent, but it has created an unmanageable rule for the lower courts. In the case below, for example, the Federal Circuit applied its own law to CSU's claim that Xerox unlawfully refused to sell or license patented products, but applied Tenth Circuit law to identical claims concerning Xerox's copyrighted products. The Federal Circuit avoided serious conflict only because the Tenth

Circuit had no applicable precedent. As detailed below, however, had the case been appealed from a district within, for example, the Ninth Circuit, a serious conflict would have occurred. *See supra* at 18.

In the recent *Midwest Industries* case, such a conflict *did* exist. In that case, the plaintiff alleged that defendant had violated federal trade dress law and Iowa state law by copying plaintiff's winch post design; plaintiff did not, however, allege that defendant infringed its patent for a trailer (of which the winch post design was a part). *Midwest Industries*, 175 F.3d at 1356-58. Ultimately, the district court relied on controlling Tenth Circuit precedent – *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995) (*"Vornado I"*) – and granted summary judgment in favor of the defendant, but the Federal Circuit reversed. *Ibid.* (expressly rejecting the Tenth Circuit decision in *Vornado I*, the Federal Circuit concluded that "we will apply our own law to such questions"). In declining to follow *Vornado I*, the Federal Circuit recognized that under its new choice-of-law rule, lower courts might be faced with "two differing lines of authority [from the applicable regional circuit and from the Federal Circuit] when faced with conflicts between patent law and state or federal trademark claims." *Id.* at 1361. In *Spotless Enterprises, Inc. v. Carlisle Plastics, Inc.*, a trademark infringement case rendered shortly after *Midwest Industries*, Judge Trager of the Eastern District of New York faced such a conflict, and squarely addressed the problems it raised:

> While a district court must adhere to Federal Circuit precedent in interpreting and applying patent law, a district court is also required to respect the authority of its regional circuit court when interpreting other non-patent specific federal statutes. Until the question of the Federal

> Circuit's authority to issue binding interpretations of non-patent specific statutes is resolved, its opinion in *Midwest* will create enormous difficulties for a district court; it will require the district court to engage in a precarious balancing act.

Spotless Enterprises, 56 F. Supp. 2d 274, 285, n. 11 (E.D.N.Y. 1999).

The effect of this "precarious balancing act" is already apparent. As noted above, the Federal Circuit in *Midwest Industries* declined to follow *Vornado I* in rendering its decision. After *Midwest Industries*, another lawsuit similar to *Vornado I* was filed, also against Vornado Air Circulation Systems. *See Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 93 F. Supp. 2d 1140 (D. Kan. 2000) ("*Vornado II*"). In *Vornado II*, the plaintiff, asserting offensive collateral estoppel, sought a declaratory judgment of non-infringement based on *Vornado I*. The defendant argued that *Midwest Industries* changed controlling law. Thus, the district court in *Vornado II* had to determine whether it was bound by *Vornado I* or *Midwest Industries*. The parties in *Vornado II* disagreed as to which court an appeal should be taken. The district court determined that *Vornado I* continued to control, despite the Federal Circuit's more recent pronouncement in *Midwest Industries*, and regardless of which court would hear the appeal. *Id.*, 93 F. Supp. 2d at 1142-43. If the Federal Circuit hears the appeal in *Vornado II*, however, it may very well reverse that decision in favor of its own precedent. Absent review and reversal by this Court, the Federal Circuit's confusing, unworkable rule will lead to appellate forum shopping and to inconsistent results within the same district, even by the same district judge.

III. The Federal Circuit's Decision Is Contrary To Supreme Court And Federal Antitrust Precedent

The Federal Circuit's interpretation of the antitrust law varies dramatically from the long-standing body of antitrust law established by this Court and various regional circuit courts. For several reasons, this Court should, therefore, grant review and reverse the Federal Circuit's decision below.

A. This Court Has Consistently Recognized That Intellectual Property Does Not Confer Upon Its Holder A *Per Se* Exemption From Antitrust Scrutiny

This Court has rejected the use of any *per se* rules or presumptions in the field of antitrust law:

> Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust laws. This Court has preferred to resolve antirust claims on a case-by-case basis, focusing on the 'particular facts disclosed by the record.'

Kodak, 504 U.S. at 466-67. *See also Kodak*, 504 U.S. at 479 ("The dissent's proposal to grant *per se* immunity to manufacturers competing in the service market would exempt a vast and growing sector of the economy from antitrust laws.").

Such *per se* presumptions totally undermine the critical role of summary judgment. The Federal Circuit below not only adopted a *per se* exemption for intellectual property, but in doing so it made assumptions and weighed evidence – all contrary to its well-settled role on summary judgment. *See, e.g., Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 254 (1986).

By its own admission, Xerox did not implement its restrictive parts policies in order to protect its patents, but rather willfully to capture 100% of the service market. Petition, App. at 5a. Even more compelling than Kodak, which had only 10% of the primary equipment market, Xerox possesses between 80% and 90% of the primary market for copiers. Construed in the light most favorable to CSU, as they must be on summary judgment, these facts create material disputed issues of fact concerning monopoly power and exclusionary conduct – critical elements of CSU's monopolization claims. *See Kodak*, 504 U.S. at 481 (citing *United States v. Grinnell*, 384 U.S. 563, 570-71 (1966) (a *prima facie* offense of monopolization under Section 2 has two elements: possession of monopoly power in the relevant market and the willful acquisition or maintenance of that power)).

Furthermore, to the extent that the Federal Circuit perceives a conflict between the intellectual property laws and the antitrust laws, the conflict certainly cannot be resolved by subordinating antitrust laws to intellectual property laws in all but the most extreme cases involving fraud or sham litigation. Petition, App. at 7a.[4] Neither body of law trumps the other. In fact, as the Federal Circuit has itself observed, the patent and antitrust laws

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[4] The Federal Circuit limited an intellectual property holder's exposure to the antitrust law to extreme instances where the patent was obtained through fraud, or the patentee's suit to enforce the patent was no more than a sham. *Ibid.* (citing *Walker Process*, 382 U.S. at 177). As noted above, CSU did not allege a *Walker Process* claim. Therefore, under the Federal Circuit's strained logic, Xerox was immune from antitrust scrutiny. Whether Xerox engaged in fraud or sham litigation should relate only to whether Xerox has the right to enforce its patent, *not* to whether Xerox has a right to monopolize a distinct service market.

are "complementary". *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990); *Locite Corp. v. Untraseal, Ltd.*, 781 F.2d 861, 876-77 (Fed. Cir. 1985). *See also Guidelines for Licensing of Intellectual Property*, 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 1.0 ("The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare.").

The common purpose of both statutes can readily be fulfilled by allowing a patent or copyright holder the exclusive right to exclude where there is one market involved, but subjecting the patent or copyright holder to antitrust scrutiny where two markets are involved and the intellectual property owner seeks to extend his legal monopoly into a second market. *See, e.g., Atari Games*, 897 F.2d at 1576 ("[A] patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, *i.e.*, beyond the limits of what Congress intended to give in the patent laws."); *Times-Picayune*, 345 U.S. at 611 (even a lawful monopolist cannot use his dominant position in one market to expand his empire into the next). By condoning Xerox's use of its patent over parts to capture 100% of the market for service of its copiers, the Federal Circuit illogically, and without any cited authority, concluded that the market for *service* of Xerox copiers was "within the scope" of the limited patent granted Xerox over its *parts*.

Finally, contrary to the Federal Circuit's interpretation, the applicability of this Court's holding in *Kodak* does not turn on whether a Section 1 or a Section 2 antitrust claim is alleged. *See* Petition, App. at 8a. Considering both Section 1 and Section 2 claims, this Court explicitly recognized in *Kodak*

> . . . that power gained through some natural and legal advantage such as a *patent*, copyright, or business acumen *can give rise to liability* if 'a

> seller exploits his dominant position in one market to expand his empire into the next.'

Kodak, 504 U.S. at 479, n. 29 (citing *Times-Picayune*, 354 U.S. at 611) (emphasis added).

Nothing in this language limits its application to Section 1 tying claims only. Whether styled as an unlawful tie between parts and service or as a refusal to provide competitors with access to essential parts, the end result is the same – a manufacturer extends a limited and lawful monopoly over parts into a second, competitive market for service. *See also Image Technical Services v. Eastman Kodak Co.*, 125 F.3d 1195, 1216 (9th Cir. 1997) ("the Supreme Court's statement that 'exploit[ing] [a] dominant position in one market to expand [the] empire into the next' is broad enough to cover monopoly leveraging under § 2.").

As the Federal Circuit acknowledges, this Court has concluded in a host of Section 1 "tying" cases that claims involving the use of a patented or copyrighted article are not immune from the antitrust laws, but rather are judged by traditional Section 1 standards. *See, e.g., International Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947) (Section 1 tying violation found where defendant tied the purchase of its salt to patented salt vending machines and refused to sell machines without the purchase of its salt); *United States v. Paramount Pictures*, 334 U.S. 131 (1948) (Section 1 violation found in "block booking" practices of licensing a copyrighted feature film on the condition that the film exhibitor license other feature films; the Court found that the result of the block booking was to "add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses." *Id.* at 157-58); *Interstate Circuit, Inc. v. United States*, 306 U.S. 208, 230 (1939) ("An agreement illegal because it suppresses competition is not any less so because the competitive article is copyrighted.").

This Court has applied no different standard in Section 2 cases. Contrary to the Federal Circuit's contention, this Court has repeatedly concluded that a holder of intellectual property cannot refuse to deal when the effect of such refusal is to use a dominant position in one market to expand into another. In *Kodak*, for example, this Court rejected the dissent's suggestion – now adopted by the Federal Circuit – that an "inherent" monopoly conferred by a patent should exempt a manufacturer from liability for its efforts to expand into another market:

> The dissent urges a radical departure in this Court's antitrust law. It argues that because Kodak has only an 'inherent' monopoly in parts for its equipment . . . the antitrust laws do not apply to its efforts to expand that power into other markets. The dissent's proposal to grant *per se* immunity to manufacturers competing in the service market would exempt a vast and growing sector of the economy from the antitrust laws . . .

Kodak, 504 U.S. at 479.[5]

In *Times-Picayune*, this Court similarly concluded that no distinction should be drawn between the expansion of monopoly power under Section 1 or Section 2, because the effect on competition under either cause of action is the same – a monopolist "use[s] his dominant position in one market to expand his empire into the next." *Id.*, 345 U.S. at 611. With specific regard to the Section 2 claim alleged, the *Times-Picayune* Court concluded that " . . . [i]f

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[5] Had this Court followed the Federal Circuit's logic in *Kodak*, it would have concluded that Kodak had the right (by virtue of its patent over parts) to refuse to deal with ISOs, and to leverage its parts monopoly into a monopoly over service. This Court recognized, however, that such an outcome would have represented – as does the decision below – "a radical departure in this Court's antitrust law." *Ibid.*

accompanied by unlawful conduct or agreement, or conceived in monopolistic purpose or market control, even individual sellers' refusals to deal have transgressed the [Sherman] Act." *Id.*, 345 U.S. at 625.

Likewise, in *Mercoid Corporation v. Mid Continent Investment*, 320 U.S. 661, 665-66 (1944), this Court concluded that whether under Section 1 or Section 2, "the method by which the monopoly is sought to be extended is immaterial." This is so because the patent laws are primarily for the public benefit not, as the Federal Circuit has concluded, for the protection of the patent holder:

> The grant of patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts.' Const., Art. I, § 8. It carries, of course, right to be free from competition in the practice of the invention. But the limits of the patent are narrowly and strictly confined to the precise terms of the grant. [Cites omitted.] It is the public interest which is dominant in the patent system. [Cites omitted.] It is the protection of the public in a system of free enterprise which alike nullifies a patent where any part of it is invalid [cites omitted] and denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant. *The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.*

Mercoid, 320 U.S. at 665-66 (emphasis added). *See also Morton Salt Co. v. G.S. Suppiger*, 314 U.S. 488, 492 (1941) (" . . . [public policy] equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.").

B. The Federal Circuit's Grant Of *Per Se* Immunity For Intellectual Property Holders Conflicts With The Law Of Other Circuits

The Federal Circuit's decision also conflicts with the decisions of other Circuits. In *MCI v. AT&T*, 708 F.2d 1081, 1149-53 (7th Cir. 1983), for example, the Seventh Circuit recognized that an antitrust violation could stem from AT&T's refusal to allow competitors access to its patented phone switches, if such conduct had the effect of "smothering" competition in markets "adjacent" to the one in which AT&T possessed monopoly power. In that case, AT&T, like Xerox, possessed patents on its phone switches, but was compelled to allow its competitor, MCI, access to the phone switches (an essential facility) in order to allow MCI to compete in a second market for transmission of long distance phone calls. *Id.*, 708 F.2d at 1153.

Unlike the Federal Circuit, the Seventh Circuit properly recognized that a patent holder had neither *per se* immunity from the antitrust laws nor the unfettered right to exclude competition in another market. *See also SmithKline Corp. v. Eli Lilly & Co.*, 575 F.2d 1056 (3rd Cir. 1978), *cert. denied*, 439 U.S. 838 (1978) (court recognized that unilateral action which extends a patent monopoly beyond the narrowly construed patent grant is not immune from Section 2 of the Sherman Act); *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30 (D. D.C. 2000) (conclusions of law) and *United States v. Microsoft Corp.*, 97 F. Supp. 2d 59 (D. D.C. 2000) (final judgment) (in the recent antitrust case brought against Microsoft, Judge Jackson directed Microsoft to make its *copyrighted* Windows operating system software available to competitors in the separate market for applications software).

The Federal Circuit acknowledges that its decision also conflicts with the Ninth Circuit's decision in *Image Technical Services, infra.* In that case, the Ninth Circuit determined that Kodak, as the holder of patents over its parts, did not have a *per se* right to exclude competitors. *Image Technical Services,* 125 F.3d at 1216 (" . . . the [Supreme] Court in *Kodak* supposed that intellectual property rights do not confer an absolute immunity from antitrust claims."). Rather, the Ninth Circuit evaluated whether Kodak had a legitimate business justification for its exclusionary conduct. *Id.* at 1214. Having concluded that Kodak's motive was pretextual (*i.e., not* implemented to protect its patent), the Ninth Circuit upheld the jury verdict in favor of the ISOs. *Ibid.* Because the test in *Image Technical Services* required an "evaluation of the patentee's subjective motivation for refusing to sell or license its patented products", the Federal Circuit declined to follow it. Petition, App. at 10a.[6]

IV. The Impact Of The Federal Circuit's Ruling Will Eliminate Antitrust Enforcement In The Service Industry

As this Court in *Kodak* recognized, if the Federal Circuit's logic below is adopted, a "vast and growing segment of economy" will be left without antitrust redress and will ultimately fail. *Kodak,* 504 U.S. at 479, n. 29. Any high-technology equipment manufacturer can now capture 100% of the lucrative market for service of

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[6] The Federal Circuit would not even have had to engage in an analysis of Xerox's "subjective motivation" for its parts policies. As noted above, in flat contradiction to its well-settled role on summary judgment, the Federal Circuit ignored Xerox's *own admission* of its motive for restricting sales of its parts – to capture 100% of the service market. Petition at 5.

its own brand of equipment by refusing ISOs access to patented or copyrighted parts and software. The Federal Circuit should not be allowed to re-write the antitrust laws to the exclusive benefit of intellectual property holders.

ISOs do not seek access to schematics or designs for parts and software patented or copyrighted by manufacturers. Such a requirement would enable ISOs and others to compete with these manufacturers for the sale of such intellectual property, and may, in turn, stifle the incentive to create new inventions promoted by the intellectual property laws.

Allowing the manufacturers to prohibit these aftermarket competitors from having access to the parts or information necessary to compete in the aftermarkets will create two monopolies: one in the parts or software market, and one in the service market. This result is precisely what the Supreme Court intended to prevent in *Kodak*, but precisely what will happen if the Federal Circuit's decision is allowed to stand. Without access to essential parts and information, ISOs will now have to enter two markets in order to compete in one – a result entirely antithetical to the antitrust laws. *See Kodak*, 504 U.S. at 485 (citing *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 14 (1984) and *Fortner Enterprises, Inc. v. U.S. Steel Corp.*, 394 U.S. 495, 509 (1969) (" . . . one of the evils proscribed by the antitrust laws is the creation of entry barriers to potential competitors by requiring them to enter two markets simultaneously.")).

CONCLUSION

The Federal Circuit has tipped the delicate balance between intellectual property law and antitrust law in favor of the former. It has done so with a holding that

- contradicts the holdings of this Court;
- contradicts the holdings of other circuits;
- ignores Congressional intent; and
- creates an unmanageable rule.

Unless *certiorari* is granted, service independent of the manufacturer will become history.

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